

AR20

Annual Report

SQUARE **D** COMPANY

1965



WHEREVER ELECTRICITY IS DISTRIBUTED AND CONTROLLED



Executive Offices • Park Ridge, Illinois

Directors

H. R. BOYER	*JOHN D. LEITCH
PAUL A. CHRISTENSON	*L. G. MAECHTLEN
*ALLAN D. EMIL	*JAMES F. MAGIN
HOWARD HALL	GRAHAM J. MORGAN
MITCHELL P. KARTALIA	HENRY MORGAN
*WALTER J. KOHLER, JR.	*T. R. OAKES
*LYNFORD LARDNER, JR.	JOSEPH H. PENGILLY

**Members of Executive Committee*

Officers

L. G. MAECHTLEN	JAMES F. MAGIN
President	Vice President, International
M. P. KARTALIA	T. R. OAKES
Executive Vice President	Vice President, Secretary-Treasurer
JAMES H. BURNS	GRANT McDONALD
Vice President, Personnel Relations	Vice President—Division Manager
PAUL A. CHRISTENSON	DANIEL H. MILLER
Vice President, Manufacturing	Vice President—Division Manager

Executive Offices

Executive Plaza, Park Ridge, Illinois 60068
(Incorporated in State of Michigan 1903)

Annual Meeting

Fourth Tuesday in April

Capital Stock Listing (SQD)

New York Stock Exchange

Transfer Agents

National Bank of Detroit
Detroit, Michigan 48232

Morgan Guaranty Trust Company
of New York
New York, New York 10015

Registrars

The Detroit Bank & Trust Company
Detroit, Michigan 48231

Bankers Trust Company
New York, New York 10015

Shareholders of Record

13,600



SQUARE D COMPANY

EXECUTIVE PLAZA · PARK RIDGE, ILLINOIS

To Shareholders of Square D Company:

1965 marks the seventh successive year in which both Square D sales and earnings reached new highs. It was the sixth successive year that increased dividends were declared. This trend has continued since our decentralized manufacturing program was substantially completed in 1958.

Sales in 1965 of \$179,113,104 were 15 per cent over 1964 and earnings of \$24,656,260 were 20 per cent higher. It should be noted, however, that \$896,500 of these increased earnings was due to reduction in the 1965 Federal Income Tax rate. Total dividends declared in 1965 were \$2.35 per share (\$1.60 plus 75¢ year-end extra) compared with \$2.10 per share in 1964.

As part of our continuing program to expand and improve facilities in accordance with needs, construction was completed in 1965 on a new plant in Dallas and a new warehouse in Florence, Kentucky, 15 miles south of Cincinnati. The latter provides us with one of the most modern material handling and stocking facilities in the country. It will carry some 12,000 standard items and significantly improve customer service as well as reduce distribution costs. Other construction started during the year was a new larger plant in Mexico, D.F. and a substantial addition to the factory in England.

Late in 1965 the Board of Directors elected Mitchell P. Kartalia as Executive Vice President of the Company. He started with the Company in 1940, was named Vice President-Marketing in 1958 and elected a Director in 1963. Mr. Kartalia will continue to direct marketing activities as well as assume additional Corporate duties for which he is ideally equipped.

Henry Morgan, a Director for 38 years, has decided not to stand for re-election in 1966. After the shareholders' Annual Meeting the Board of Directors intends to designate him an Honorary Director in recognition of his many years of devotion and valuable service to the Company.

The recent actions taken by the Board of Directors to increase the regular dividend in 1966 and recommend a 3-for-1 stock split to shareholders at the Annual Meeting in April this year is indicative of our confidence in the continuing growth of the Company.

By order of the Board of Directors
March 25, 1966


L. G. MAECHTLEN
President

SQUARE D COMPANY

Annual Report for the Year ended December 31, 1965

Summary of 1965 Operations

		1965	1964
SALES		\$179,113,000	\$155,011,000
NET EARNINGS	Before Taxes	47,206,000	40,020,000
	After Taxes	24,656,000	20,520,000
	Per Sales Dollar	.13	.13
	Earnings Per Share	3.61	3.01
DIVIDENDS DECLARED } (Cash)	Total	16,023,000	14,308,000
	Per Share	2.35	2.10
WORKING CAPITAL	December 31	67,383,000	59,317,000
LAND BUILDINGS EQUIPMENT }	Net Value—December 31	23,230,000	22,841,000
	Gross Additions	3,250,000	2,513,000
	Depreciation	2,792,000	2,708,000
SHAREHOLDERS' EQUITY—December 31 }	Total	94,741,000	85,907,000
	Per Share	13.89	12.60

Statement of Source and Application of Funds

	1965	1964		1965	1964
Net earnings	\$24,656,000	\$20,520,000	Changes in working capital, except cash and marketable securities:		
Provision for depreciation	2,792,000	2,708,000	Increase in current assets:		
Investment credit	129,000	128,000	Receivables	\$ 3,227,000	\$ 2,237,000
	<u>\$27,577,000</u>	<u>\$23,356,000</u>	Inventories	8,823,000	8,710,000
Less:			Insurance and other expenses paid in advance	78,000	145,000
Dividends declared	\$16,023,000	\$14,308,000		<u>\$12,128,000</u>	<u>\$11,092,000</u>
Additions to property and equipment	3,250,000	2,513,000	Increase in current liabilities:		
	<u>\$19,273,000</u>	<u>\$16,821,000</u>	Dividends payable	\$ 687,000	\$ 2,392,000
	\$ 8,304,000	\$ 6,535,000	Other	1,313,000	3,226,000
Other:				<u>\$ 2,000,000</u>	<u>\$ 5,618,000</u>
Proceeds from exercise of stock options	201,000	254,000	Net changes in working capital, except cash and marketable securities	\$10,128,000	\$ 5,474,000
Additional investment in non-consolidated affiliates	-0-	37,000	Change in working capital	8,066,000	4,928,000
Change in other assets	(439,000)	(1,898,000)	Cash and marketable securities:		
Change in working capital	<u>\$ 8,066,000</u>	<u>\$ 4,928,000</u>	Change during year	\$ (2,062,000)	\$ (546,000)
			Balance:		
			At beginning of year	28,471,000	29,017,000
			At end of year	<u>\$26,409,000</u>	<u>\$28,471,000</u>



WHEREVER ELECTRICITY IS DISTRIBUTED AND CONTROLLED

Consolidated Statement of Financial Condition

	December 31	
	1965	1964
Current Assets:		
Cash	\$ 8,149,922	\$16,116,031
Marketable securities—at cost (approximates market).....	18,259,328	12,355,372
Receivables, less allowances for losses, adjustments and discounts.....		
(1965—\$325,000; 1964—\$325,000).....	21,875,650	18,649,143
Inventories (Note B).....	47,794,657	38,972,018
Insurance and other expenses paid in advance.....	574,183	495,473
Total Current Assets	\$96,653,740	\$86,588,037
Current Liabilities:		
Dividend payable January 3, 1966, and January 2, 1965.....	\$ 7,843,564	\$ 7,156,154
Materials and services.....	5,592,991	4,786,782
Wages and salaries.....	4,359,385	3,865,395
Franchise, property and miscellaneous taxes.....	2,106,775	1,598,665
Taxes on income, payable to United States and Canada.....	9,367,677	9,863,600
Total Current Liabilities	\$29,270,392	\$27,270,596
Working Capital	\$67,383,348	\$59,317,441
Investments in Non-Consolidated Affiliates		
—at cost (Note C).....	1,912,008	1,912,008
Deferred Tax Charges and Other Assets (Note D)	2,215,423	1,836,330
Land, Buildings and Equipment		
—at cost, less accumulated depreciation (Note E).....	23,230,907	22,841,953
Net Assets—shareholders' equity	\$94,741,686	\$85,907,732
Shareholders' Equity:		
Common Stock, par value \$5.00 a share:		
Authorized—10,000,000 shares (Note F)		
Issued and outstanding at December 31, 1965—6,820,490 shares.....	\$34,102,450	\$34,076,925
Additional paid-in capital.....	7,573,194	7,397,265
Earnings retained for use in the business.....	53,066,042	44,433,542
Total	\$94,741,686	\$85,907,732

See notes to financial statements on page 6

**WHEREVER ELECTRICITY IS DISTRIBUTED AND CONTROLLED**

SQUARE D COMPANY CANADA LIMITED

Consolidated Statement of Net Earnings

	Year Ended December 31	
	1965	1964
Revenues:		
Net sales.....	\$179,113,104	\$155,011,847
Dividends received from non-consolidated affiliates (In 1964 net after foreign taxes of \$36,755)	178,500	719,045
Miscellaneous.....	1,069,223	1,267,651
	<u>\$180,360,827</u>	<u>\$156,998,543</u>
Costs and Expenses:		
Cost of products sold.....	\$109,929,784	\$ 95,593,044
Selling, service, administrative and general.....	23,224,783	21,384,607
	<u>\$133,154,567</u>	<u>\$116,977,651</u>
Earnings Before Taxes on Income.....	\$ 47,206,260	\$ 40,020,892
United States and Canadian Taxes on Income.....	22,550,000	19,500,000
Net Earnings.....	<u>\$24,656,260</u>	<u>\$20,520,892</u>

Consolidated Additional Paid-In Capital

Addition During Year:		
Excess of option price over par value of Common Stock issued under Employees' Stock Option Plan (Note F).....	\$ 175,929	\$ 208,732
Balance:		
At Beginning of Year.....	7,397,265	7,188,533
At End of Year.....	<u>\$ 7,573,194</u>	<u>\$ 7,397,265</u>

Consolidated Earnings Retained for Use in the Business

Addition During Year:		
Net earnings.....	\$ 24,656,260	\$ 20,520,892
Less cash dividends declared (1965, \$2.35 a share; 1964, \$2.10 a share).....	16,023,760	14,308,260
Earnings retained.....	<u>\$ 8,632,500</u>	<u>\$ 6,212,632</u>
Balance:		
At Beginning of Year.....	44,433,542	38,220,910
At End of Year.....	<u>\$ 53,066,042</u>	<u>\$ 44,433,542</u>

See notes to financial statements on page 6

Notes to Financial Statements

Year Ended December 31, 1965

A. Canadian Subsidiary

The accounts of Square D Company and its wholly-owned Canadian subsidiary have been consolidated in the accompanying financial statements at par of exchange. Conversion of these accounts to United States dollars would not have a significant effect on the financial statements.

The net assets of this subsidiary at December 31, 1965 amounted to \$6,282,865, including working capital of \$4,991,633.

B. Inventories

Inventories at locations in the United States are stated at cost, which was not in excess of market, determined under the last-in, first-out method; inventories in Canada aggregating \$3,981,823 are stated at the lower of cost (determined under the first-in, first-out method) or market.

C. Investments in Non-Consolidated Affiliates

Investments—at cost	\$1,912,008
Square D equities:	
In net assets	\$6,128,751
In net earnings for 1965	1,156,625
In dividends paid in 1965	178,500

D. Deferred Tax Charges and Other Assets

Deferred Federal Income Tax charges (1965—\$1,942,101; 1964—\$1,612,858) account for the substantial portion of these assets. These deferred charges represent future tax benefits arising from the cumulative excess of expenses (primarily tooling amortization) charged to income in the financial statements over amounts allowed for Federal Income Tax purposes. These benefits are realizable as the amortization and other expenses become allowable for Federal Income Tax purposes in subsequent years and are stated at tax rates in effect under the current Internal Revenue Code.

In the 1964 Annual Report, these charges were reported as a reduction of the current Federal Income Tax liability.

G. Pension Plans

Unfunded past service obligations under pension plans amounted to approximately \$3,873,000 at December 31, 1965, and are being funded over a period of 30 years from the dates when the past service obligations were incurred. The cost of the plans for 1965 was approximately \$1,707,000.

E. Land, Buildings and Equipment

These assets consisted of the following:

	December 31	
	1965	1964
Land	\$ 2,006,143	\$ 1,732,537
Buildings and land improvements	24,353,739	23,141,498
Equipment	21,290,664	19,842,647
	<u>\$47,650,546</u>	<u>\$44,716,682</u>
Less accumulated depreciation	24,419,639	21,874,729
NET	<u>\$23,230,907</u>	<u>\$22,841,953</u>

The provision for depreciation charged against income amounted to \$2,792,025 in 1965 as compared with \$2,708,386 in 1964.

The investment credit of approximately \$129,600 has been applied as a reduction of Federal Income Taxes payable for 1965 and will be taken into income during the estimated useful lives of the respective assets and facilities.

F. Stock Options

	Number of Shares	Prices		Average
		From	To	
January 1, 1965:				
Reserved for options	27,315			
Outstanding	20,805	\$25.66	\$60.12	\$49.66
Exercised in 1965	5,105	25.66	43.25	39.46
Cancelled in 1965	550	60.12	60.12	60.12
Granted in 1965	3,700	68.44	68.44	68.44
December 31, 1965:				
Outstanding	18,850	27.45	68.44	55.80
Available for grant	146,300			
Reserved for options	165,150			

During 1965, 150,000 additional common shares were reserved for granting as approved by shareholders in April, 1965. The price for options granted in 1965 is the fair market value of the stock on the date of granting such options. Options for 6,000 shares were exercisable at December 31, 1965.

Accountants' Report

To the Board of Directors and Shareholders, Square D Company:

We have examined the accompanying consolidated statement of financial condition of Square D Company and consolidated subsidiary as of December 31, 1965, and the related statements of net earnings, earnings retained for use in the business, and additional paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Square D Company and consolidated subsidiary at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois
February 17, 1966

TOUCHE, ROSS, BAILEY & SMART

Square D Company and Subsidiary (Consolidated)

Comparison for the 10-Year Period 1956-1965

	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956
						(in thousands of dollars)				
Net sales.....	\$179,113	\$155,011	\$134,154	\$126,096	\$115,325	\$114,614	\$110,272	\$91,222	\$104,120	\$102,354
Earnings before taxes on income.....	47,206	40,020	32,212	29,272	23,756	23,578	21,536	12,170	19,277	24,169
U. S. and Canadian taxes on income.....	22,550	19,500	16,400	14,900	12,100	12,000	11,100	6,325	10,200	12,500
Net earnings.....	24,656	20,520	15,812	14,372	11,656	11,578	10,436	5,845	9,077	11,669
Cash dividends.....	16,023	14,308	10,882	10,184	7,594	6,702	5,244	5,232	5,119	5,272
Retained earnings.....	8,632	6,212	4,930	4,188	4,062	4,876	5,191	613	3,958	6,397
Additions to property and equipment.....	3,250	2,513	3,118	2,313	1,169	3,995	1,020	1,167	7,740	5,198
Depreciation charge.....	2,792	2,708	2,588	2,550	2,376	2,365	2,365	2,328	1,915	1,399
Working capital.....	67,383	59,317	54,388	49,395	44,555	38,405	35,078	28,516	26,918	28,618
Shareholders' equity.....	94,741	85,907	79,440	74,126	69,816	65,407	60,325	55,104	54,239	50,194
Shares outstanding at end of year*.....	6,820	6,815	6,806	6,791	6,786	(000 omitted)				
						6,768	6,747	6,735	6,716	6,702
Shareholders' equity*.....	\$13.89	\$12.60	\$11.67	\$10.91	\$10.28	(in dollars per share)				
Net earnings*.....	3.61	3.01	2.32	2.11	1.72	\$9.66	\$8.94	\$8.18	\$8.07	\$7.48
Cash dividends*.....	2.35	2.10	1.60	1.50	1.12	1.71	1.55	.86	1.35	1.74
						.99	.77	.77	.76	.78

*Retroactively adjusted to reflect stock splits in 1961 and 1956 and stock dividends paid in 1960, 1959 and 1957.



WHEREVER ELECTRICITY IS DISTRIBUTED AND CONTROLLED

THE WORLD-WIDE SCOPE OF SQUARE D COMPANY

Operations IN THE United States

Manufacturing

Industrial Control Division • Milwaukee and Glendale, Wisconsin. Principal products: Electrical control systems and control centers, motor starters, electronic welding controls, special control systems, solid state logic controls.

Distribution Equipment Division • Lexington, Kentucky and Peru, Indiana. Principal products: Circuit breaker and fusible load centers and service equipment, safety switches, busways, wireways, underfloor duct.

Heavy Industry Division • Cleveland, Ohio. Principal products: Crane and mill controls, high-voltage motor starters, electro lifting magnets, magnetic brakes, custom-designed controls.

Circuit Breaker Division • Cedar Rapids, Iowa. Principal products: Circuit breakers used in residential, commercial and industrial applications.

Commercial Control Division • Asheville, North Carolina. Principal products: Pressure, float, temperature and vacuum switches, voltage testers.

Los Angeles Manufacturing Plant • Principal products: Circuit breakers, electrical distribution equipment and motor controls.

Coil Engineering Plants • Plants in Roanoke and Markle, Indiana. Principal products: Coils and transformers.

Marketing

Marketing Division • Headquarters in Park Ridge, Illinois. 112 field offices throughout the United States.

<i>Regional Assembly Plants</i>	Atlanta	Denver	San Francisco
	Chicago	Detroit	Seattle
	Dallas	Los Angeles	Secaucus, N. J.

Principal products: Switchgear, unit substations, switchboards, panelboards; also custom-assembled distribution and control devices to meet regional code requirements.

Central Warehouse • Located in Florence, Kentucky.

<i>Distribution Warehouses</i>	Atlanta	Detroit	Portland, Ore.	Seattle
	Chicago	Los Angeles	St. Louis	Secaucus, N. J.
	Dallas	Philadelphia	Salt Lake City	Tampa
	Denver	Pittsburgh	San Francisco	

Operations OUTSIDE THE United States

Manufacturing, Assembly and Distribution of Square D Products

Square D Company Canada Limited • Toronto. Main plant in Toronto and regional assembly facilities in Montreal and Vancouver. Regional distribution warehouses in Montreal, Toronto, Vancouver and Winnipeg.

Square D Limited • London. Manufacturing plant in Swindon, England.

Square D de Mexico, S. A. • Mexico City.

Assembly and Distribution of Square D Products

Square D Italia S. p. A. • Arenzano (near Genoa).

Square D Company Australia Pty. Limited • Melbourne.

Distribution of Square D Products

Square D GmbH • Düsseldorf, West Germany.

Square D France S. A. • Paris.



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